



Committee On Finance

Max Baucus, Chairman

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Statement by Chairman Max Baucus Joint Committee on Taxation Joint Review of the Internal Revenue Service

Five years ago, Congress and the Administration determined that it was time for the IRS to stop spinning its wheels and start advancing with the rest of the world – in technology, customer service, and enforcement, so that, ultimately, honest taxpayers would have more confidence in the system.

The IRS Restructuring and Reform Act of 1998 addressed the concern that Congress was part of the problem. Too often Congress sent the IRS in completely opposite directions in the same year. The solution was to bring together the six congressional committees with jurisdiction over the IRS so that the Members of Congress could hear the same information from the Administration and from the General Accounting Office and so that the Members could start to work together to ensure a more consistent message. Today's joint review marks the fourth year Congress has met that requirement of the legislation.

To that end, we will hear testimony today from four witnesses: Mr. Charles Rossotti, Commissioner of the IRS; Mr. Larry Levitan, Chairman of the IRS Oversight Board; Mr. David Williams, Treasury Inspector General for Tax Administration; and Mr. James White, Director of Tax Issues at the General Accounting Office.

In the 1990s, the IRS demonstrated an inability to modernize its computer systems. It also increasingly placed collection statistics ahead of fairness and failed to provide consistent, quality service to taxpayers. These inadequacies in tax administration led to the creation of the National Commission on Restructuring the IRS and the enactment of the 1998 Act to reform the agency. The new law required the IRS to re-engineer its business practices, upgrade its computer systems and provide taxpayers with better service. Commissioner Rossotti was brought in to implement the most sweeping changes to the IRS in 50 years. He was also the first Commissioner to serve under the five-year term enacted as part of the 1998 Act. This November, he will complete his five-year term. Commissioner Rossotti has stopped the wheels from spinning and has pulled most of the wagon out of the mud. The nation has been well served by his efforts.

Under Commissioner Rossotti's leadership, the agency has a new mission statement, a new organization structure, a new strategic plan and a new senior management team. Unfortunately, the IRS carries a heavy load – and the wagon is prone to being stuck in the mud. Significant progress has been made since 1998. Perhaps the most significant facts are that electronically filed returns are up 110% and public approval of the IRS is up 35%. But there is much more work to be done. The IRS is still in the technological dark ages. Only two major projects have been completed with the others having delays and cost overruns. I realize that the Commissioner said it would take 10 years to complete the modernization projects, but Congress expected that more would be accomplished on the technology front during Commissioner Rossotti's tenure.

It is also troubling that enforcement statistics have dramatically declined. Collection seizures are down 98%, levies are down 82%, and liens are down 21%. Examinations of small businesses are down 73%, examinations of individuals are down 52%, examinations of large corporations are down 33% and revenue from enforcement is down 9%. Taxpayer behavior in response to congressional and IRS actions is complicated and difficult to analyze. But I am concerned that these enforcement statistics are more of a reflection of the IRS's reaction to the 1998 legislation than a change in taxpayer behavior. And, in light of the Senate Finance Committee hearing in April on abusive tax scams, the government must have a coherent plan for addressing deliberate tax cheating so that honest taxpayers don't carry more than their fair share of the burden.

Properly focused tax enforcement is critical to a sound tax system. The current evidence of increasing noncompliance and declining IRS audit and collection activities threatens that system. We may get the wagon out of the mud but it won't go anywhere if it is missing one of its wheels – and the tax system won't work without enforcement.

Commissioner Rossotti leaves the IRS with many accomplishments. Unfortunately, some of his top level executives have decided to leave as well. The 1998 Act also addressed the dearth of accountability and continuity within the IRS. The IRS Oversight Board was part of the solution to this problem. It is my hope that the Board has a plan to meet Congress's expectations and ensure that the IRS moves the wagon completely out of the ditch rather than letting it slide further down in the mud.

In 1998, Members of Congress shared a vision for a restructured IRS. We shared a vision where taxpayers could ask questions and get quick and accurate responses, where paperwork was reduced and more taxpayers filed electronically, where taxpayer data was readily available on computer screens so accounts could be adjusted promptly, where honest taxpayers were treated with respect, and where tax cheats were brought to justice. In other words, we shared a vision of a modern professional organization that provides quality customer service while still collecting its accounts receivable. I am committed to working with the Administration and the IRS to achieve that vision.